Annual Report 2013-14

The Department of Finance

Newfoundland Labrador

Fiscal Year Ending March 31, 2014

Department of Finance
P.O. Box 8700, Confederation Building
St. John's, NL A1B 4J6
Telephone: 709.729.2950
Fax: 709.729.2070
E-mail: finance@gov.nl.ca

Message from the Minister

In accordance with my responsibilities under the *Transparency and Accountability Act,* I am pleased to submit the 2013-14 Annual Performance Report for the Department of Finance. Its purpose is to account for the progress made towards achieving the intended results of the 2011-14 Strategic Plan. The 2013-14 fiscal year marks the end of the 2011-14 planning cycle. The report therefore provides performance information for the 2013-14 annual objectives, as well as a summary of the Department's achievements on its three-year goals. Additionally, the report provides general information about the Department's mandate, lines of business, key accomplishments and shared commitments of the 2013-14 fiscal year, and presents anticipated challenges for the coming fiscal year.

As Minister responsible for the Department of Finance, my signature below is indicative of my accountability for the actual results reported within this document.

I would like to take this opportunity to acknowledge the outstanding accomplishments and commitment of the employees in the Department of Finance. I look forward to their continued support and dedication.

Sincerely,

Charlene Johnson

Honourable Charlene Johnson
Minister of Finance

Table of Contents

1.0 Departmental Overview 1
2.0 Report on Performance 6
3.0 Shared Commitments 17
4.0 Highlights and Accomplishments 19
5.0 Looking Forward - The Year Ahead 20
6.0 Financial Information 22
7.0 Appendices 23

Annual Report 2013-14
The Department of Finance

1.0 Departmental Overview

1.1 Mandate[1]:

The Department of Finance is mandated to provide strategic leadership across Government in the development of fiscal, financial, statistical and economic policy. These responsibilities are primarily achieved through the provision of timely analysis and advice to government departments and agencies; Cabinet; and the Committees of Cabinet, particularly Treasury Board for which the Minister of Finance serves as President. It also oversees the management and control of provincial finances to ensure appropriate use of public funds.

This mandate is legislated in the Department of Finance Notice, 2003 of the *Executive Council Act* and includes responsibility for almost 40 pieces of legislation such as the *Financial Administration Act*, the *Statistics Agency Act*, the *Pensions Funding Act*, and the *Revenue Administration Act*. Additional information is available on-line at www.assembly.nl.ca/Legislation/sr/Finance.htm.

1.2 Lines of Business:

As of March 31, 2014, the Department of Finance offered the following lines of business to its key primary clients:

Revenue and Expenditure Policy and Planning:

The Department of Finance provides strategic leadership in provincial revenue and expenditure planning, which includes developing, implementing and monitoring related government policies. A focal point of this responsibility is the coordination of Government's annual budgetary process, which is integrated, collaborative and consultative. The Department works with other government departments, agencies, boards and commissions to prepare, review and analyze budgetary priorities. This includes oversight of the provincial pre-budget consultation process, which is designed to provide key stakeholders, individuals and various interest groups an opportunity to identify budget priorities for consideration in the provincial budget. A part of this process also includes the development of options for changes to the provincial taxation system; and revenue forecasting and monitoring. The Department is also responsible for negotiating and administrating all programs under federal-provincial fiscal arrangements and providing the analysis required for supporting the development of Government's fiscal policies. All of this information is then used to inform Government's policies and multi-year planning for revenues, expenditures and cash requirements.

---

[1] *On June 27, 2014, the Department presented to the House of Assembly a new strategic plan for the 2014-17 planning cycle. The non-performance items presented within this document (i.e., mandate, lines of business, primary clients, values and vision) are consistent with the Department's new 2014-17 Strategic Plan. A full version of the 2014-17 Strategic Plan is available on-line at www.fin.gov.nl.ca/fin/publications/index.html.*

Treasury Management:

The Department of Finance is responsible for the financial management of the public treasury. This includes investment of provincial pension funds and the associated financial management responsibilities; government property insurance management; and management of the Province's borrowing and debt servicing programs, including cash management and the investment of sinking fund assets.

Economic Analysis and Research:

The Department of Finance is responsible for the analysis of the financial and economic impact of major projects to assist Government in its related decision-making processes. The Department is also responsible for analyzing and forecasting the macroeconomic environment through the development and application of the Newfoundland and Labrador Econometric Model, Input/Output Model[2], and the Population Projection Model. This includes the provision of specific macroeconomic analysis and studies related to policy, economic events and projects.

Statistical Research, Analysis and Data Development:

The Department of Finance fulfills a vital statistical role for Government by collecting (e.g., telephone surveys, data purchasing, etc.), storing (e.g., data entry and advisory services in development/modification of administrative databases) and disseminating statistical information while guaranteeing confidentiality and privacy. This is achieved through the Newfoundland and Labrador Statistics Agency. The Department also acts as Government's official point of contact with Statistics Canada; develops and provides focused sub-provincial data through Community Accounts (www.nl.communityaccounts.ca); and provides expertise in spatial analysis and socio-economic simulation modeling.

Comptrollership Oversight:

The Department of Finance controls and accounts for the receipt and disposition of public money through the development of financial policies and procedures, administration of applicable legislation and the preparation of the provincial financial statements (i.e. Public Accounts) and related financial reports. The Department also develops and maintains government-wide revenue and expense systems and ensures that effective financial management controls, systems and accounting procedures are in place; and government departments are properly accounting for their revenues and expenses. These systems and procedures are in place to ensure that no payment of public money occurs that is in excess of the appropriations provided by the House of Assembly and applicable legislative authority. Professional advisory services are also provided to government departments in the areas of: financial management, accounting and systems; financial policy development and implementation; internal auditing; and financial reporting. Corporate shared services for accounts payable and receivables are also provided.

---

[2] *The Input/Output Model is a complex economic model that provides measurements on how the outputs from one industrial sector relate to the inputs from other industrial sectors of the economy. It is used for a variety of purposes in economic research and analysis, such as the assessment of the impact of the start-up or shut down of major projects in the economy.*

Supports to Cabinet and Committees of Cabinet:

The Department of Finance supports Cabinet and the Committees of Cabinet through the provision of financial, fiscal, statistical and economic analysis. Advisory services are also provided to departments and agencies of Government in the development of such components within cabinet submissions. Additionally, the Department is responsible for the provision of operational support to the Treasury Board Committee of Cabinet, to which the Minister of Finance serves as President.

Tax Administration:

The Department of Finance is responsible for the administration of various provincial taxes, rebates and incentive programs. This includes both personal (e.g., parental benefits and home heating rebate) and corporate/business (e.g., venture capital and direct equity) tax credit and tax rate programs. The Department is also responsible for the collection of select long-term accounts receivables on behalf of Government and for auditing both personal and corporate/business tax programs for compliance purposes.

1.3 Organizational Structure:

Throughout the 2013-14 fiscal year, the Department of Finance employed approximately 300 employees (of which 65% are female and 35% are male) on a permanent, temporary, seasonal and contractual basis. The majority of these employees are located in the Confederation Building Complex. The Department also has offices located in other parts of the Province including Corner Brook and Grand Falls-Windsor; as well as other parts of the City of St. John's (Topsail Road and Mews Place). The Department is organized into four distinct Branches, as depicted in the diagram on the following page. Additional information about each of the Department's Branches, Divisions, locations and contact information is available on-line at www.fin.gov.nl.ca.

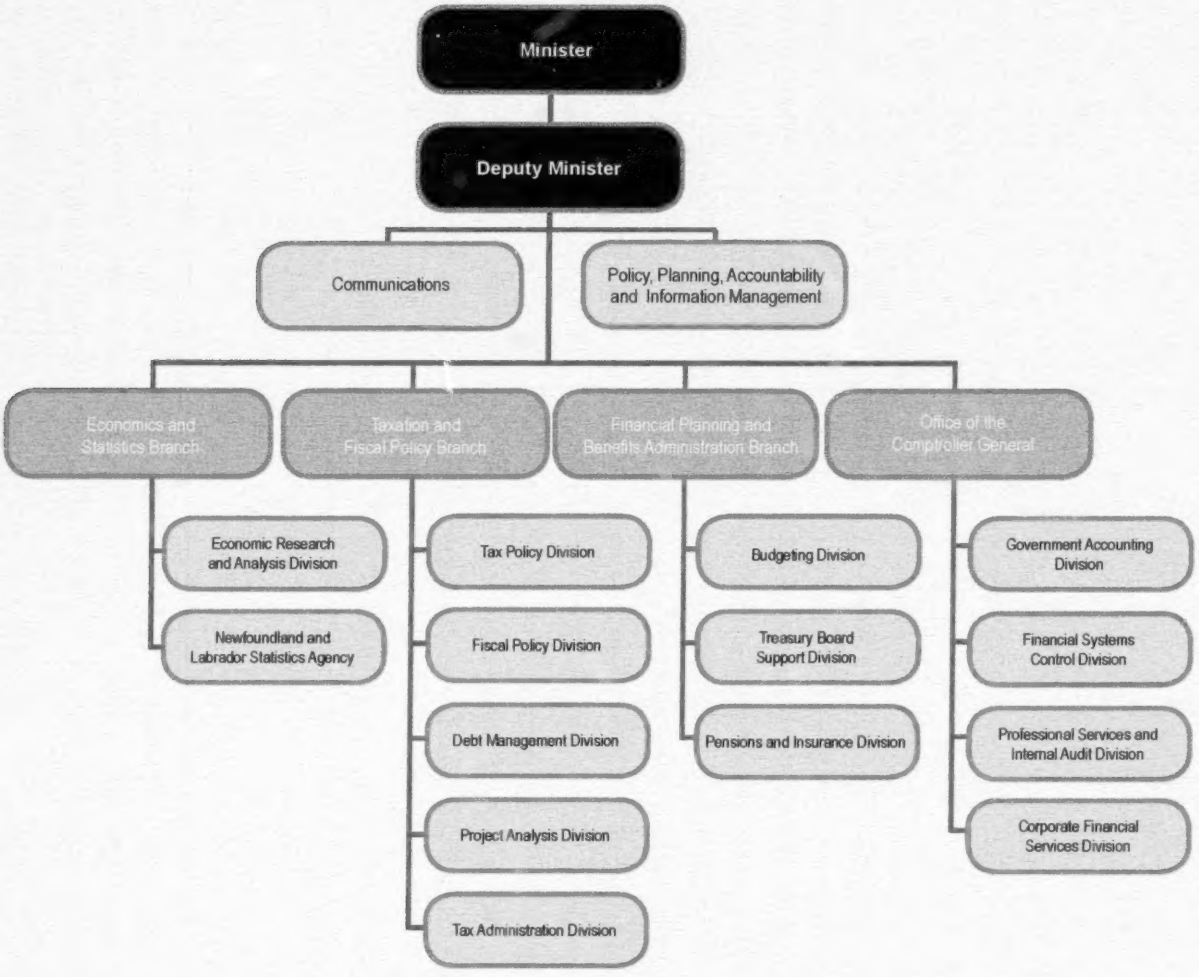
1.4 Financial Resources and Budgetary Allocations:

The financial activities of the Department of Finance for fiscal year ending March 31, 2014 showed gross expenditures of $176,922,520, offset by related revenues of $3,535,073 (see page 22 for further details). The following table provides additional information comparing expected to actual departmental expenditures:

Summary of Departmental Budget
Fiscal Year Ending March 31, 2014

Expenditures	Original Budget $	Actual $
Salaries	22,381,300	19,550,070
Employee Benefits	74,627,100	67,156,569
Transportation and Communications	840,000	755,516
Supplies	421,500	349,909
Professional Services	963,100	1,348,660
Purchased Services	2,479,900	2,461,343
Property, Furnishings and Equipment	97,000	298,003
Loans and Advances	90,500,000	85,000,000
Grants and Subsidies	4,501,000	2,450
Gross Expenditures	196,790,900	176,922,520
Less: Related Revenue	-4,095,800	-3,535,073
Net Expenditures	192,695,100	173,387,447

Expenditure and revenue figures included above are on a modified cash basis. The figures are un-audited and based on the information provided in the Report on Program Expenditures and Revenues of the Consolidated Revenue Fund for Fiscal Year Ended 31 March 2014. Audited financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles for the public sector. They will be made public upon the release of **Volume I – Public Accounts Consolidated Summary Financial Statements** and **Volume II - Consolidated Revenue Fund Financial Statements**.



1.5 Stakeholders:

The Department of Finance plays a unique role within the Government of Newfoundland and Labrador. It serves not only as a central agency, offering supportive fiscal, financial, economic and statistical services to Government departments and agencies; but also as a front-line delivery department, dealing directly with both personal and corporate/business tax filers, government vendors and community interest groups. Within this context, the Department has identified its primary clients as follows:

- Cabinet and the Committees of Cabinet
- Provincial Government Departments and Crown Agencies
- House of Assembly and its Members
- Business Community
- Municipal Governments/Consolidated Communities
- Economic/Statistical Agencies
- General Public
- Government Vendors
- Taxpayers
- Community Groups/Special Interest Groups/Not-for-Profit Groups

Additionally, the Department takes a collaborative approach to efficiently fulfilling its mandate and delivering its services. As such it works closely with its stakeholders, which include professional accounting organizations, post-secondary institutions, other jurisdictions, and financial institutions.

1.6 Strategic Values:

Values are the fundamental principles that guide behaviour and decision-making. They are the critical success factors that are essential to effective performance-based planning because they underline the decision-making process, impacting the ability of any organization to achieve defined goals and objectives. Clear communication and articulation of values promotes alignment between organizational culture and achievement of outcomes.

The Department of Finance recognizes the importance of establishing and clearly communicating its values so that employees can make decisions that are aligned appropriately with the Department's strategic priorities. It has therefore identified the following strategic values:

- **Accountable:**

  The Department of Finance is accountable to ensure appropriate use of public funds by Government. This is a fundamental role of the Department and underpins all actions, processes and decision-making. The Department of Finance strives to ensure it is accountable by establishing clear outcomes, timelines and deliverables; and the criteria by which actions will be measured. The Department then evaluates its performance by assessing the degree to which expectations are fulfilled. Priority focus is applied to ensuring timely responses that are reflective of desired outcomes. When establishing its performance standards, the Department remains focused on Government's strategic priority of a balanced fiscal approach to social and economic prosperity.

- Innovative:

  The Department of Finance is responsible for providing strategic leadership across Government in the development of fiscal, financial, statistical and economic policy. As such, it must apply an innovative approach to ensure such policy is adaptive to the changing needs of the Province; aligned with the strategic priorities of Government; and flexible to accommodate the diversities of Government Departments and Crown Agencies. The Department is therefore committed to innovation by continuously seeking ways to improve upon the quality of its work processes, programs, and advisory/analytical services. This is accomplished by identifying and pursuing opportunities to broaden and enrich capacity and skill sets through learning and development; seeking input and opinions from stakeholders; and learning from experiences.

- Collaborative:

  Both internal and external collaboration is fundamental to the Department's ability to successfully fulfill its mandate. As a central agency responsible for providing a leadership role in fiscal, financial, statistical and economic policy, it is vital that the Department engage its stakeholders in a meaningful way to ensure policies, programs and services are developed and implemented successfully. Additionally, staff within the Department must work as a team, from start to finish. The Department demonstrates its commitment to collaboration by actively engaging and working with others, both inside and outside of the organization, to successfully achieve its outcomes in an efficient and effective manner. Collaboration is built upon trust, respect for the contribution of others, open and proactive information sharing, and a focus on the larger good.

1.7 Vision:

The vision of the Department of Finance is of a sustainable financial management framework that supports a vibrant, self-reliant provincial economy and social prosperity.

2.0 Report on Performance

During the 2013-14 fiscal year, the Department of Finance made significant progress towards its commitments as outlined in its 2011-14 Strategic Plan. The following section provides an overview of these accomplishments.

2.1 Mission:

The 2011-14 Strategic Plan for the Department of Finance included a mission statement that spanned two cycles of planning – from April 1, 2011 to March 31, 2017 (as per Government's Guidelines). During the development of the 2014-17 Strategic Plan, the Department of Finance reviewed this mission statement and subsequently chose to modify it in light of its revised mandate and to improve alignment with the commitments outlined in the strategic directions. As such, the following is a summary of the performance achieved on its former mission statement (as provided in the 2011-14 Strategic Plan).

Annual Report 2013-14
The Department of Finance

Mission: By March 31, 2017, the Department of Finance will have supported Government in its commitment to fiscal sustainability and a healthy economy for the Province.

Measure: Government has been supported in its commitment to fiscal sustainability and a healthy economy for the Province

Indicators:

- **Annually developed a three-year forecast and provided Fall updates to support Government's evaluation of the sustainability of its programs and services for today, and over the medium and long terms**

  This activity is completed each year as part of the annual budget process and is used by Government to evaluate the sustainability of programs and services in the immediate, medium and long terms. The forecasts included multi-year projections for provincial and federal revenues, cash requirements, economic and demographic indicators, and expenses. Updates to the forecast were also completed on a regular basis throughout the three-year planning cycle and are made available to the public through the publication of the Fall Update and The Economic Review (www.fin.gov.nl.ca/fin/budget/index.html).

- **Maintained a provincial tax system that is fair, competitive and sustainable in support of a strong and vibrant economy**

  During the annual budget process, the Department assesses the provincial tax system to identify options to support Government's fiscal priorities. The following are highlights of some of the changes that were made by Government in support of maintaining a provincial tax system that is fair, competitive and sustainable:

  - *The 2014 Budget implemented a reduction in small business corporate income tax rate to 3% making this the lowest small business tax rate in Atlantic Canada (along with Nova Scotia). About 6,000 small businesses throughout the Province are expected to benefit from this reduction.*
  - *Effective for the 2014 taxation year, the Low-Income Tax Reduction income thresholds were increased, eliminating provincial income tax for individuals with net income up to $18,547 and for families with net income up to $31,362. Partial tax reductions will be received by individuals with net income up to $22,815 and for families with net income up to $38,006.*
  - *Budget 2014 announced changes to the Seniors' Benefit that would result in an increase in the maximum payment seniors could receive in October 2014. This benefit will be the highest ever at $1,036, up from $971 in 2013.*
  - *Newfoundland and Labrador maintained the lowest personal income tax rates in Atlantic Canada.*

- **Provided demographic data and analysis for integration into expenditure forecasting to support the design and delivery of Government programs and services that are reflective of the changing demographics and economic environment of the Province**
  Completed each year as part of the annual budget process as evidenced by the publication of the three-year forecast, which includes economic and demographic indicators.

- **Monitored debt servicing ratios**
  Investment markets were monitored on an ongoing basis to ensure investment and borrowing activities were optimized.

- **Developed an integrated and robust revenue forecasting model**
  Completed through the implementation of a new budgeting system, which enhanced the integration of revenue and expenditure, providing for improved forecast modelling capacity (further details provided on page 13).

- **Implemented new and/or improved financial controls**
  Completed as required and evidenced by such things as the:

  - ***Consolidation of Budgetary Expenditure Classifications***
    Budgetary expenditures are classified into main objects by type of goods or services. Prior to the consolidation, Government utilized eleven expenditure classifications (as detailed in the annual Estimates book). Six of these eleven expenditure classifications were consolidated during the 2014 budget process to improve the payment processing by eliminating unnecessary funds controls.

  - ***Mandatory Electronic Funds Transfer***
    During the 2013-14 fiscal year, the Department initiated the implementation of a mandatory electronic funds transfer policy, which required all payments issued by Government to be completed electronically via direct bank deposit. Implementation of this policy achieves benefits for both Government and its clients. Government realizes savings by eliminating the cost to purchase cheque stock; reducing mailing cost; and reducing the cost to maintain printers required for printing cheques. It also has the potential to lessen the risk of cheque fraud and it facilitates more reliable and accurate forecasting of client cash flow information (that is, funds would be charged to the appropriate bank accounts immediately on their respective payment dates).

    From the client's perspective, this policy provides for more timely payments by eliminating delays caused by mail disruptions and avoid for the client, costs associated with cheques not arriving on time. It accommodates various types of payment schedules because of the flexibility of transmitting files 24 hours a day, 7 days a week. It also eliminates the need for the client to physically retrieve and then cash their cheques.

- **Leveraged technical opportunities to enhance Government's ability to extract financial information**
  During the 2011-14 planning cycle, the Department initiated a major project, the purpose of which was to upgrade Government's Financial Management System. This system is used to process all of Government's financial transactions and report on its financial results. The current system is outdated; upgrading will provide Government the opportunity to leverage technology advancements to enhance the quality and timeliness of financial information used to assist in critical decision-making processes. Opportunities where technology advancements will improve upon Government's financial administrative activities include accounts payable, accounts receivable, general ledger, fixed assets and corporate financial reporting.

- **Provided revenue and expenditure planning for the purpose of fiscal and financial management that takes into consideration provincial population changes**
  This activity was completed on an annual basis in support of the budget process and Fall update to Government's fiscal forecast.

- **Streamlined the budget reporting and monitoring processes of Government through the development and implementation of a new budget system**
  During the 2011-14 planning cycle, the Department implemented a new budgeting system which streamlined budget monitoring and reporting activities. The system helped the Department realize efficiencies through reduction in duplication of effort and improved data quality by reducing potential for error and providing accessibility to real-time data (additional information is provided on page 13 & 14).

- **Developed new methodologies to provide Government with information and analysis of economic risks and regional income disparities**
  During the 2011-14 planning cycle, the Department assessed various options for developing methodologies to provide Government with new regional economic forecasts and indicators of income disparities. As of March 31, 2014, much progress had been achieved on the development of indicators of income disparities, such as housing affordability and extreme low income at the community level for both individuals and families. This represents a significant accomplishment for the Department as it provides information that can be used to support Government in assessing the impacts of its programs and services at the community level (additional information is provided on page 11 & 12).

- **Enhanced financial reporting tools**
  During the 2011-14 planning cycle, the Department worked towards enhancing its corporate financial reporting tools. In partnership with the Office of the Chief Information Officer and other client departments, Finance prioritized the types of financial reports required by client departments, made the necessary modifications to its current reporting tools and initiated the implementation of those modifications. Additionally, as mentioned previously, the Department began a process to upgrade its Financial Management System. This upgrade will include enhancements to its current financial reporting tools (further details provided on page 15).

The Department also initiated the implementation of a Financial Business Intelligence tool. This is an analytical reporting solution which supports the retrieval of information from Government's Financial Management System required to support financial decision-making.

2.2 Strategic Issue #1 - Information Capacity

The Provinces' changing demographics and recent economic growth have significantly altered the needs of the people of this Province. As such, the Government of Newfoundland and Labrador is focused on ensuring its programs and services are versatile and adaptive to the public's needs, user-friendly and clearly focused on the priorities of the people.

A critical component needed by Government to develop new and/or modify existing public programs and services is reliable, sound and accurate information. In its 2011-14 Strategic Plan, the Department of Finance therefore identified information capacity as a strategic direction. The outcome of which is programs and services that better meet the needs of citizens because their design and delivery are more reflective of the current and forecasted provincial demographic make-up and changes due to economic development. The Department's role within this strategic direction focused on the identification of economic risks and regional disparities to serve as inputs into Government policy issues, and the enhancement of public accessibility to data and information. To support the realization of this direction, the Department developed the following goal:

Goal: By March 31, 2014, the Department of Finance's contribution to Government's decision-making process as it relates to the design and delivery of programs and services is enhanced.

Measure: Enhanced contribution to Government's decision-making process

Indicators:

- Developed and provided to relevant government departments:
  - New regional economic forecasts and the impacts of sub-provincial performance on labour demand and supply
  - Indicators of income disparities that have not been previously available, which arise due to changes in demographics and economic growth for groups such as:
    - Retired persons living in low income
    - Non-retired persons with falling real incomes possibly due to barriers to full employment
  - Indicators of risk that have not been previously available pertaining to those unable to afford housing or shelter
- Improved accessibility to information for youth and others that can assist in the identification and development of careers within the public service as a means of addressing Government's decision-making process pertaining to the anticipated human resource labour market gaps arising from the wave of retirements expected within the next 10 years

Summary of Progress on Goal:

The Department remains committed to continuing its research to identify viable methodologies for developing new regional economic forecasts and assessing the impacts of sub-provincial performance on labour demand and supply. However, following the completion of a feasibility study, it was determined that the development of new regional economic forecasts and their impacts on labour demand and supply at the sub-provincial level was not viable within the current timeframe. Challenges with data availability and quality would necessitate the development of new data, which would require considerably more research, extending the time required to develop the new tool beyond the three-year timeframe of the goal. The Department also explored other options to provide supplementary regional economic performance data, however these options were determined to be unsuitable.

During the 2011-14 planning cycle, the Department worked to develop new indicators of risk and income disparities as a means of providing additional information to be used by Government in the design and delivery of programs and services. Various options were explored and feasibility assessments were completed taking into consideration the availability of data, the resources required to develop the indicators, and the applicability of those indicators to the Province. Subsequently, measures of housing affordability and extreme low income were developed at the community level for individuals and families. This represents a significant accomplishment for the Department and valuable source of information for Government because access is now available to information for specific categories of individuals (e.g., retired persons living in low income and non-retired persons) within specific communities of the Province (www.nl.communityaccounts.ca). Access to this level of detailed information provides Government the capability to better understand the needs of the people of this Province and the impacts of Government programs and services.

The Department also partnered with the Human Resource Secretariat to assist Government in addressing challenges associated with anticipated labour market gaps arising from retirements estimated to occur over the next 10 years. The Department developed an on-line career planning tool targeted at high school graduates who are making choices about potential career paths and post-secondary graduates entering the workforce. The on-line career tool identifies potential job opportunities in the public service resulting from retirements. The first layer of data used to build this system was the core public service, with the intent to expand this data set to eventually include other public service jobs such as healthcare workers and educators. This tool and information will also be added to datasets that will be used to support labour market monitoring and policy development.

Summary of Progress on 2013-14 Annual Objective:

During the 2013-14 fiscal year, the Department continued to enhance its contribution towards Government's decision-making process as it relates to the design and delivery of programs and services. This focus of effort was applied to the development of new regional economic forecasts, indicators of income disparities and indicators of risk. The following progress is noted on the corresponding 2013-14 annual objective, in support of the overall goal as identified in the 2011-14 Strategic Plan:

Objective: By March 31, 2014, the Department of Finance will have provided Government with a more comprehensive information and analysis of the potential impacts of provincial demographics and economic change on the design and delivery of Government programs and services, based upon new resources and information developed in the previous two years.

Measure: Provided Government with more comprehensive information and analysis

Indicators:

- **Provided new regional economic forecasts, indicators of income disparities and indicators of risk**

The Department completed a feasibility assessment on the development of regional economic forecasts. Highly complex data challenges associated with the development of such forecasts were identified which required considerably more research and development resources than originally anticipated. As such, the Department was unable to develop new regional economic forecasts. It should be noted that the Department explored other opportunities to develop information that could potentially supplement new regional economic indicators, until such time when these new indicators could be developed. However these options were determined to be unsuitable. The development of regional economic forecasts continues to be a long-term priority for the Department and will be explored as resources and time permits.

During the 2013-14 fiscal year new indicators of housing affordability and extreme low income were developed as indicators of income disparities and risk. The housing affordability indicator was developed to support the Province's Poverty Reduction Strategy. This indicator allows for the examination of the affordability of housing by low income populations at the community level or for detailed family types, age cohorts or gender. The extreme low income measure identifies families and individuals where the cost of living is 50 per cent or less than the NLMBM[3] standard cost of living within their community. Additionally, during the 2013-14 fiscal year, NLMBM itself was further refined to provide data at the individual level by age and gender; whereas previously it was only available by family type.

In 2013-14, the Department also further expanded upon the usefulness of its motor vehicle registration indicator, as an indicator of economic activity. The data is now available on-line (through the Newfoundland and Labrador Statistics Agency website as well as Government's Open Data website) in visual format through the use of interactive maps and data charts/graphs.

2.3 Strategic Issue #2 - Financial Planning

A fundamental role for the Department of Finance is to support government in its financial planning processes. This is achieved primarily through the provision of timely and accurate analysis and advice related to revenue and expenditure forecasting, particularly as it relates to the annual budget process. It is therefore crucial for the Department to ensure that its capacity to provide financial planning advice is top-notch and adaptive to the continuously fluctuating factors which impact Government's decision-making processes.

---

[3] *The Newfoundland and Labrador Market Basket Measure (NLMBA) is a selection of goods and services used to determine the cost of a "minimally accepted" standard of living at the sub-provincial and sub-group levels. Using this measure, a family is defined as having a low income if its disposable family income falls below the cost of the goods and services in the market basket for their community size.*

The strategic use of technology to support efficient and effective internal business processes is a crucial element of the Department's ability to meet its mandated expectations. During the 2011-14 planning cycle, the Department therefore identified as a priority, the need to develop and implement a new budgeting system. Through the use of new technology, the Department focused its efforts to enhance its financial planning processes by fully integrating revenue and expenditure forecasting methods, for the purposes of improving upon the accuracy and timeliness of the financial analysis provided in support of Government's annual budget process. The following goal was therefore developed in the 2011-14 Strategic Plan:

Goal: By March 31, 2014, the Department of Finance will have improved the integration of its revenue and expenditure forecasting capabilities.

Measure: Improved revenue and expenditure forecasting capabilities

Indicators:

- Implemented an advanced, integrated, robust revenue and expenditure forecasting model
- Provided revenue and expenditure policy advice based on the output obtained from the new forecasting model which incorporates varying world-wide resource prices and takes into consideration anticipated provincial economic and demographic change

Summary of Progress on Goal:

During the 2011-14 planning cycle, the Department of Finance improved upon the integration of its revenue and forecasting capabilities and the incorporation of anticipated provincial economic and demographic change considerations. This was primarily achieved through the implementation of a new budgeting system designed to streamline operations thereby realizing efficiencies and improve upon the quality of the work. Prior to the implementation of this new system, budget preparation, monitoring, and forecasting was managed through the use of multiple, complex and sophisticated spreadsheets. Information was retrieved from client departments and then entered into these spreadsheets by staff. Upon implementation of the new budgeting system, client departments are now able to work directly with the system and provide the required financial information in real-time. Additionally, the revenue information is also now integrated so that this too is entered directly in real-time. These enhancements reduced the risk of error, which occurred as a result of indirect entry of the required financial information, and eliminated duplication of tasks. The new budgeting system was built to accommodate both the Cash and Accrual Basis accounting methodologies used by Government. It will also be used to support other budgeting functions such as the preparation of the Salary Details document and the annual Estimates book. Through the implementation of this new budgeting system, the Department has enhanced the integration of expenditure and revenue forecasting, thereby improving upon Government's financial planning capacity. The Department has also been able to enhance the relevancy of its revenue and expenditure policy advise because of the improved integration of resource prices and provincial economic and demographic changes.

Summary of Progress on 2013-14 Annual Objective:

During the 2013-14 fiscal year, the Department concluded its efforts to develop and implement an integrated budgeting system. This focus of effort was applied to staff training as well as the realization of the anticipated benefits of the full integration of revenue and forecasting capabilities. The following progress is noted on the corresponding 2013-14 annual objective, in support of the overall goal as identified in the 2011-14 Strategic Plan:

Objective: By March 31, 2014, the Department of Finance will have fully integrated its new revenue and expenditure forecasting data into Government's financial planning processes.

Measure: Fully integrated revenue and expenditure forecasting data into Government's financial planning process

Indicators:

- **Enhanced budget monitoring[4] , variance analysis and reporting**
  During the 2013-14 fiscal year, the Department completed the full migration to the new budgeting system for budget preparation and monitoring for both Cash and Accrual Basis accounting methods. An accountability framework was developed and implemented which outlined the roles and responsibilities of both the Department of Finance and the Departmental Controllers with respect to budget monitoring, evaluation of budget variances and reporting on cash and accrual submissions. Additionally, customized reports were developed and used during the 2014 Budget process to enhance reporting on budget variances. The Cash and Accural Basis Charts and Exhibits produced for the annual Estimates document were also evaluated for efficiency and usefulness. Subsequently various Accural Basis Charts/Exhibits produced in the 2014 Estimates Book were clarified. These activities helped the Department to enhance its budget monitoring, variance analysis and reporting activities by eliminating the need to complete numerous reconciliations and workarounds that were once required under the former budgeting system and develop customized tools for better reporting and variance analyses.

- **Enhanced salary budget preparation**
  During the 2013-14 fiscal year, the Department developed and tested the templates needed to use the new budgeting system to produce the annual Salary details document. Additionally, the Department initiated the migration of information from the former budgeting system and began the data reconciliation process. Once completed, this will provide efficiencies in time and work flow processes.

- **Provided training to department users (both within and outside of the Department of Finance) of the new budgeting system**
  During the 2013-14 fiscal year system users both within and outside of the Department of Finance received training on the new system. Training efforts focused on the roles and responsibilities for budget monitoring, variance analysis, reporting and salary budget preparation and monitoring.

---

[4] *In the development of this annual report, a minor typographical error was identified in the original wording of this indicator. The 2012-13 annual report identified enhanced budget modelling as an indicator. This should have read budget monitoring.*

2.4 Strategic Issue #3 - Financial Management

The general public demands an open and accountable government – one that protects their interests. As such, a strategic direction of Government is the responsible management of the Province's fiscal resources to ensure future sustainability of the Province and its citizens. Within the context of the Department of Finance, this infers a responsibility to ensure the proper management of the public purse. This responsibility is derived from the *Financial Administration Act* (FAA) which requires the Department of Finance to ensure that public money is properly disbursed, collected, and invested; and that the appropriate checks and balances are in place for accurate receipting, expenditure and recording of public funds.

In support of this strategic direction, the Department of Finance focused its efforts over the course of the 2011-14 planning cycle on corporate financial reporting and responsible management of unfunded pension liabilities. The following goal was identified:

Goal: By March 31, 2014, the Department of Finance will have enhanced its internal business process to ensure continued sound financial management practices.

Measure: Enhanced internal business practices

Indicators:

- Improved Government's capacity for corporate financial reporting
- Where feasible, implemented strategies to better manage the unfunded pension liability and the post-retirement benefits liability

Summary of Progress on Goal:

Accurate and timely corporate financial reporting is critical to sound financial management. With this in mind, the Department initiated a partnership with the Office of the Chief Information Officer (OCIO) to enhance Government's capability to extract various types of meaningful financial monitoring reports from its current system. In collaboration with the OCIO and client departments, reporting needs were prioritized and a plan created to guide the development and/or refinement of financial reporting templates. Focus was applied to financial management reports that supported responses to common access to information requests received under the *Access to Information and Protection of Privacy Act* and to accounts payable transactions. Templates were modified accordingly and their utility was tested. System performance was also enhanced by improving system availability and report response times. These enhancements in internal business processes related to corporate financial reporting supported Government's continued commitment to sound financial management practices.

Another focus of the Department in its commitment to ensure continued sound financial management practices was responsible management of pension fund assets (per Government's strategic direction). Over the course of the last three years, the Department has supported Government's commitment to address the sustainability of pension plans and post-retirement benefits by overseeing an independent assessment of historical fund assets allocations and performance; and special payments made to the Teacher's Pension Plan and the Public Service Pension Plan. It also consulted other jurisdictions and worked with actuaries to develop and evaluate governance model options. In partnership with the Human Resource Secretariat, the Department also consulted stakeholders on the development

and assessment of various pension reform options. The Department of Finance continues to work towards the development of strategies that will achieve Government's commitment to responsible management of pension fund assets.

Summary of Progress on 2013-14 Annual Objective:

During the 2013-14 fiscal year, the Department continued to enhance its internal business process to ensure continued sound financial management practices. Effort was focused on the development of options and evaluation of potential impacts to new financial management approaches to pensions liabilities; and on stakeholder engagement. While Government is still considering various new approaches to enhancing the financial management pensions liabilities, significant progress was achieved during the 2013-14 fiscal year. The following progress is noted on the 2013-14 annual objective, in support of the overall goal as identified in the 2011-14 Strategic Plan:

Objective: By March 31, 2014, the Department of Finance will have implemented, where feasible, strategies for enhancing the financial management of unfunded pension liability and the post-retirement benefits liability.

Measure: Implemented strategies, where feasible, to enhance financial management of unfunded liabilities

Indicators:

- **Developed options for financial management of unfunded pensions liability and the post-retirements benefits liabilities**
  During the 2013-14 fiscal year, the Department engaged with independent consultants as part of the process for developing options to reform provincial pensions and guide identification of further areas for analysis. The development of these options was further supported by a jurisdictional scan, with a particular focus on Nova Scotia, New Brunswick and Ontario. These findings were considered in the development and costing of option models. Throughout the course of the year, information was provided to Government to assist in their decision-making processes. The Department continues to provide this support.

- **Evaluated potential impacts of implementing new approaches to the financial management of the unfunded pensions liability and the post-retirements benefits liability**
  During the 2013-14 fiscal year, the Department of Finance worked with independent actuaries, as required, to evaluate and cost-out alternatives for pension reform models. For example, the option of a shared risk model was evaluated and the required changes to current pension plans to adopt such a strategy, were assessed. Other options were also evaluated, such as benefit reductions, special payments and increased contributions. Periodically throughout the year, Government was provided the results of these evaluations to support them in their decision-making process. The Department continues to provide this support.

- **Consulted with stakeholders**
  The Department of Finance partnered with the Human Resource Secretariat to ensure stakeholders were engaged throughout the fiscal year. On June 28, 2013, stakeholders were consulted on the relevant issues and a consultation process was outlined. Another session was held in September. At this time stakeholders were presented the main findings and recommendations of an independent assessment of the unfunded pensions liability. Stakeholders were also provided a summary of the results of a jurisdictional scan that was completed to assess their experiences and successes-to-date. In November stakeholders were engaged once again and provided real-time modelling of the effect on the Public Service Pension Plan and the Teachers' Pension Plan of various options for pension reform.

3.0 Shared Commitments

As a central agency of Government, the Department of Finance places strong emphasis and high priority and the development and maintenance of effective working relationships with other government departments and agencies to achieve strategic and operational priorities. As such, much of the performance achieved during the 2013-14 fiscal year, as well as the 2011-14 planning cycle was made possible because of the Department's partnerships and a shared commitment to achieving common results. Additional accomplishments made possible by these collaborative relationships are detailed below.

Census of Provincial Volunteer and Non-profit Organizations

During the 2013-14 fiscal year, the Newfoundland and Labrador Statistics Agency (Department of Finance) partnered with the Office of Public Engagement and Memorial University's Harris Centre to conduct a census of the volunteer and non-profit sector in Newfoundland and Labardor. The census, which was the first of its kind in Canada, captured the number, location, mandate and labour market information of volunteer and non-profit organizations in the Province. This information will now be used to create an updated detailed demographic profile of the sector and provide the information Government needs to better support and develop related policies.

Open Government Initiative

During the 2013-14 fiscal year, the Department of Finance worked with the Office of Public Engagement to launch the Open Government Initiative. Open Government is a government-wide initiative aimed to increase access to data and information and provide more opportunities for public involvement – with the ultimate goal of improving the quality of government programs, services and decisions. With the aim of becoming a world leader in open government, Newfoundland and Labrador's Open Government Initiative is built on a foundation of four key pillars: Open Information, Open Data, Dialogue and Collaboration. The Department of Finance played a key role in the development of the Open Government website (www.open.gov.nl.ca) and the Open Data pillar.

Upgrade to Government's Financial Management System:

During 2013-14, the Department of Finance continued its partnership with the Office of the Chief Information Officer (OCIO) on a multi-year project to upgrade Government's Financial Management System (FMS).

The FMS is an oracle-based solution which is currently used to varying degrees by all government departments to support a variety of financial administrative processes. Since its implementation in 1998, Government's business needs have changed dramatically and technology has advanced. Upgrades are now needed in response to these changes so that Government can ensure its financial administrative functions are efficiently supported and effectively managed.

During 2013-14, the Department's efforts focused primarily on the preparation work required to begin the actual upgrades to the FMS. In conjunction with the OCIO, numerous readiness activities were completed. An analysis and subsequent recommendations were completed on the resources and governance structure required for the upgrade; a Request for Proposals was released and responses were evaluated; the current FMS infrastructure was analyzed; and the design and development phase of the upgrade was developed.

Fairness in the Renewal of Federal Transfer Payments

The Government of Canada provides financial support to provincial and territorial governments on an ongoing basis to assist them in the provision of programs and services. The main transfer programs are as follows:

- Canada Health Transfer (CHT) and Canada Social Transfer (CST) - The CHT and CST are federal transfers which support specific policy areas such as health care, post-secondary education, social assistance and social services, early childhood development and child care.

- Equalization – The Equalization program provides transfers to less prosperous provincial governments to provide their residents with public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation.

- Territorial Formula Financing (TFF) - TFF provides territorial governments with funding to support public services, in recognition of the higher cost of providing programs and services in the north.

As part of its mandate, the Department of Finance is responsible for working with the other provinces and territories and the Federal Government in the negotiation of these agreements. During the 2013-14 fiscal year, the Department of Finance supported Government's strategic direction to ensure fairness in the renewal of federal transfer payments. This support was provided by monitoring and analyzing fiscal activities for indications of the evolving positions of the federal government as well as other provinces and the territories; and participating in formal FPT and PT officials' forums.

4.0 Highlights and Accomplishments

In addition to the results reported in the Report on Performance section of this document, the following provides information on other key accomplishments of the Department of Finance.

Pre-Budget Consultations

Each year, as part of the annual budget process, the Department of Finance oversees a province-wide pre-budget consultation session which provides all interested parties the opportunity to provide their input on budget priorities. During the 2013-14 fiscal year, the Department coordinated these sessions, which were held in 11 locations across the Province. In an effort to strengthen public engagement, a new interactive polling technology was introduced to solicit real-time feedback from attendees. This was in addition to the traditional format of the sessions, where individuals were invited to present to the Minister. Additionally, the Department developed an on-line budget simulator which provided individuals the opportunity to learn more about the budget process. This educational tool allowed individuals to adjust budget amounts (revenues and expenditures) to determine how they would set the budget and how those decisions impacted the overall provincial budget balance (surplus or deficit). The site also included an on-line form which enabled users to submit their feedback on budget priorities to the Department of Finance.

Budget 2014 – Shared Prosperity, Fair Society, Balanced Outlook

On March 27, the Honourable Charlene Johnson, Minister of Finance, delivered the 2014 Provincial Budget, which highlighted three major themes of Government - Shared Prosperity, Fair Society, and a Balanced Outlook. This represented the accumulation of a tremendous about of effort, time, expertise and commitment of the staff of the Department of Finance.

The Department of Finance is responsible for coordinating the annual budgetary process for the Provincial Government, which is integrated, collaborative, and consultative. In doing so the Department worked with other government departments, agencies, boards and commissions to prepare, review and analyze budgetary requests. This information was then used to inform Government's budgetary decisions about multi-year forecasts for revenues, expenditures and cash requirements. The Department of Finance plays a pivotal role in the development of Government's key policy that announces new spending, anticipated revenues and provides a provincial economic forecast. The 2014 Budget renewed Government's commitment to the management of the provincial fiscal framework to ensure sustainability of the expenditure base to support the continued delivery of Government programs and services.

Provincial Government Remains Focused on Long-term Prosperity

Multiple times throughout the fiscal year, the Province's economic strength was recognized by major stakeholders of the financial industry. Financial institutions such as BMO and RBC, the Conference Board of Canada, Credit Rating Agencies such as Moody's Investor Services and Standards & Poor's, and highly respected economists complimented the Province on its continued efforts to maintain business and consumer confidence by prudent fiscal management. Continued encouragement of private sector investment to stimulate future growth in all regions of the Province, support for local companies, attraction of external investors to encourage new business activity, and a competitive tax regime are just of the few strategies Government uses to remain focused on the Province's long-term prosperity.

Seniors' Benefit Payments

The Newfoundland and Labrador Seniors' Benefit is a refundable tax credit for low income seniors. In order to qualify for this benefit, the person must be 65 years of age by December 31st of the taxation year. This benefit is paid in October of each year and is included in the same cheque as the GST/HST credit. The amount of the credit is based on family net income from the previous year. Budget 2014 announced changes to the Senior's Benefit that would result in an increase in the maximum payment seniors could receive in October 2014. This benefit will be the highest ever at $1,036, up from $971 in 2013.

Home Heating Rebate

During the 2013-14 fiscal year, the Minister of Finance announced Government's renewed commitment to supporting individuals and families with the high cost of home heating. The Home Heating Rebate Program was continued throughout the 2013/14 heating season. The parameters of the program were continued from the previous year; eligible households with an income of $35,000 or less qualified for the maximum rebate of $250 ($500 for residents of coastal Labrador). A partial rebate (minimum of $100) was also made available to households with an adjusted family income between $35,000 and $40,000.

Additionally, the Department of Finance partnered with the Canada Revenue Agency to provide direct deposit services of the home heating rebate. This provided qualifying individuals faster payment services.

5.0 Looking Forward - The Year Ahead

On March 27, 2014, this Government released the 2014 Budget which included a projected deficit of $537.9 million and a projected increase in net debt by $807.6 million. A key component of the Province's net debt relates to unfunded pension and other post-retirement liabilities. Despite an investment of more than $3.6 billion, the liabilities have continued to grow. As of March 31, 2013, they accounted for 67% of net debt. By 2016-17, they will account for 85% of net debt – almost $9 billion. As outlined in the 10-Year Sustainability Plan, Government is continuing its review of pensions and other post-retirement benefits; remains committed to maintaining competitive tax rates that support economic growth; and will return to a surplus budget by 2015-16.

During the 2014-15 fiscal year, the Department of Finance will continue to be challenged to support Government to reduce the projected provincial deficit and return to a surplus budget. As the lead department responsible for the strategic coordination of the provincial budget, the Department will be expected to monitor and provide guidance with respect to all strategies aimed to ensure that spending levels are aligned with long-term expectations and that investments are strategic, balanced and sustainable. The Department therefore intends to provide a strategic focus on improving the overall financial management capacity of Government. This will be accomplished through initiatives aimed at building a community of practice and providing additional training in such competencies as budget management and monitoring in the public sector, and the implementation of standards and best practices for financial analysis in policy development.

The Department of Finance will also continue to partner with the Human Resource Secretariat to lead the Pension and Post-Retirement Liabilities Reform. This is an opportunity for the Department to support Government in its efforts to implement a long-term solution which will provide for the financial sustainability of the unfunded pension and post-retirements liabilities. This focus is necessary to secure and protect the pensions of public service employees. The Department of Finance will be challenged to build the technical expertise required to lead these strategies within the short timeframes identified for the completion of this initiative.

The Department of Finance will also continue its work to upgrade Government's Financial Management System (FMS). As mentioned previously in this document, the Department has partnered with the Office of the Chief Information Officer to upgrade the FMS, Government's primary tool for processing financial transactions and reporting on financial results. During the 2014-15 fiscal year, the Department will work towards completing the upgrades in priority financial administration areas (e.g., accounts payable). This will include consultations with departmental users throughout Government as well as Government vendors; and the development and delivery of related training.

The Department is confident in its ability to continue to provide strategic leadership across Government in the development of fiscal, financial, economic policy and statistical information. The Department will continue to provide strong leadership in the management and control of provincial finances to ensure appropriate use of public funds. This confidence is grounded by the professionalism, expertise and dedication to quality work exhibited by the Department's employees on a daily basis.

6.0 Financial Information

Expenditure and revenue figures included in this document are based on public information provided in the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund for Fiscal Year Ended 31 March 2014 (Unaudited)

		Estimates	
	Actual	**Amended**	**Original**
EXECUTIVE AND SUPPORT SERVICES			
1.1.01 Minister's Office	473,804	493,600	326,400
General Administration			
1.2.01 Executive Support	1,909,965	1,807,100	1,327,600
1.2.02 Treasury Board Support	262,402	277,500	274,300
1.2.03 Administrative Support - Current	288,242	402,400	310,900
1.2.04 Administrative Support - Capital	258,153	267,000	22,000
Total: General Administration	**2,718,762**	**2,754,000**	**1,934,800**
General Government			
1.3.01 Government Personnel Costs	66,656,675	93,378,400	76,906,300
TOTAL: EXECUTIVE AND SUPPORT SERVICES	**69,849,241**	**96,626,000**	**79,167,500**
FINANCIAL ADMINISTRATION			
Financial Planning and Benefits Administration			
2.1.01 Pensions Administration	(320,469)	12,900	-
2.1.02 Budgeting	1,304,501	1,322,000	1,122,500
2.1.03 Insurance	186,357	178,300	167,400
2.1.04 Financial Assistance - Current	(24,961)	335,000	4,498,000
2.1.05 Financial Assistance - Capital	85,000,000	90,500,000	90,500,000
Total: Financial Planning and Benefits Administration	**86,145,428**	**92,348,200**	**96,287,900**
Taxation and Fiscal Policy			
2.2.01 Tax Policy	1,072,933	1,086,900	1,055,900
2.2.02 Fiscal Policy	549,479	564,300	398,300
2.2.03 Project Analysis	549,419	554,800	546,400
2.2.04 Tax Administration	3,835,389	4,001,300	4,262,500
2.2.05 Debt Management	410,558	380,800	525,200
Total: Taxation and Fiscal Policy	**6,417,778**	**6,588,100**	**6,788,300**
Economics and Statistics Branch			
2.3.01 Economics	975,343	809,200	568,700
2.3.02 Statistics	2,455,757	1,824,700	1,833,200
Total: Economics and Statistics	**3,431,100**	**2,633,900**	**2,401,900**
Office of the Comptroller General			
2.4.01 Office of the Comptroller General	5,587,268	5,832,900	5,756,800
2.4.02 Corporate Services	1,956,631	2,142,500	2,292,700
Total: Office of the Comptroller General	**7,543,899**	**7,975,400**	**8,049,500**
TOTAL: FINANCIAL ADMINISTRATION	103,538,205	109,545,600	**113,527,600**
TOTAL: DEPARTMENT	173,387,446	206,171,600	**192,695,100**

7.0 Appendices

7.1 Public Service Pension Plan Joint Trusteeship Transition Committee Annual Report 2013-14

The Agreement on Pensions, which forms part of the current Public Service Collective Agreement, mandated the establishment of a Joint Trusteeship Transition Committee (the Committee). The mandate of this Committee is to recommend to the relevant parties, a joint pension trust structure to govern the activities of the Public Service Pension Plan (PSPP). Under this arrangement, an independent board of trustees is responsible for the administration of the PSPP, including the setting of benefits and investment of the Fund.

The Committee includes representatives of the five unions participating in the PSPP, Government and employers such as Newfoundland and Labrador Hydro and the Newfoundland and Labrador Health Board Association.

Originally, this process was targeted for completion in Spring 2003. A revised target was set for April 2008. However, union representatives on the Committee have indicated that until the issue of the unfunded pension liability was fully resolved, they were not prepared to move forward on the Committee's mandate. As a result, the Committee has been inactive since 2003. If the Committee does become active again, the planning and reporting requirements of the *Transparency and Accountability Act* will be fulfilled in a timely manner.

7.2 Update on Strategic Directions:

Strategic Direction #1: Fiscal Management

Outcome: Responsible management of the province's fiscal resources to ensure future sustainability of the Province and its citizens

Clarifying Statement: This outcome supports the policy direction of Government and requires systematic intervention in the following areas:

Strategic Direction Component	The Component was addressed in the Department's			Progress made towards the component is addressed in this Annual Report as follows:
	SP	OP	WP	
Fairness in the renewal of federal transfer payments		X		Shared Commitments
Prudent responsible management of debt and debt servicing costs	X			Report on Performance (Mission)
Management of the provincial fiscal framework to ensure sustainability of the expenditure base to support the continued delivery of Government programs and services	X			Report on Performance (Highlights & Accomplishments)
Fair and equitable tax burdens on businesses and individuals	X			Report on Performance (Mission and Highlights & Accomplishments)
Responsible management of pension fund assets	X			Report on Performance (Mission and Strategic Issue #3)

Strategic Direction #2: Information Capacity

Outcome: Programs and services that better meet the needs of our citizens because their design and delivery are more reflective of the current and forecasted provincial demographic make-up and changes due to economic development

Clarifying Statement: This outcome supports the policy direction of Government and requires systematic intervention in the following areas:

Strategic Direction Component	The Component was addressed in the Department's			Progress made towards the component is addressed in this Annual Report as follows:
	SP	OP	WP	
Identification and description of economic risks (e.g. labour supply and demand, and costs of shelter) as well as regional income disparities, to serve as input for significant government policy issues	X			Report on Performance (Mission and Strategic Issue #1)
Support for the delivery of Government programs and services by enhancing public accessibility to data and information to assist in workforce planning processes	X			Report on Performance (Mission and Strategic Issue #1)

Department of Finance

Annual Report 2013 - 2014

Newfoundland
Labrador